

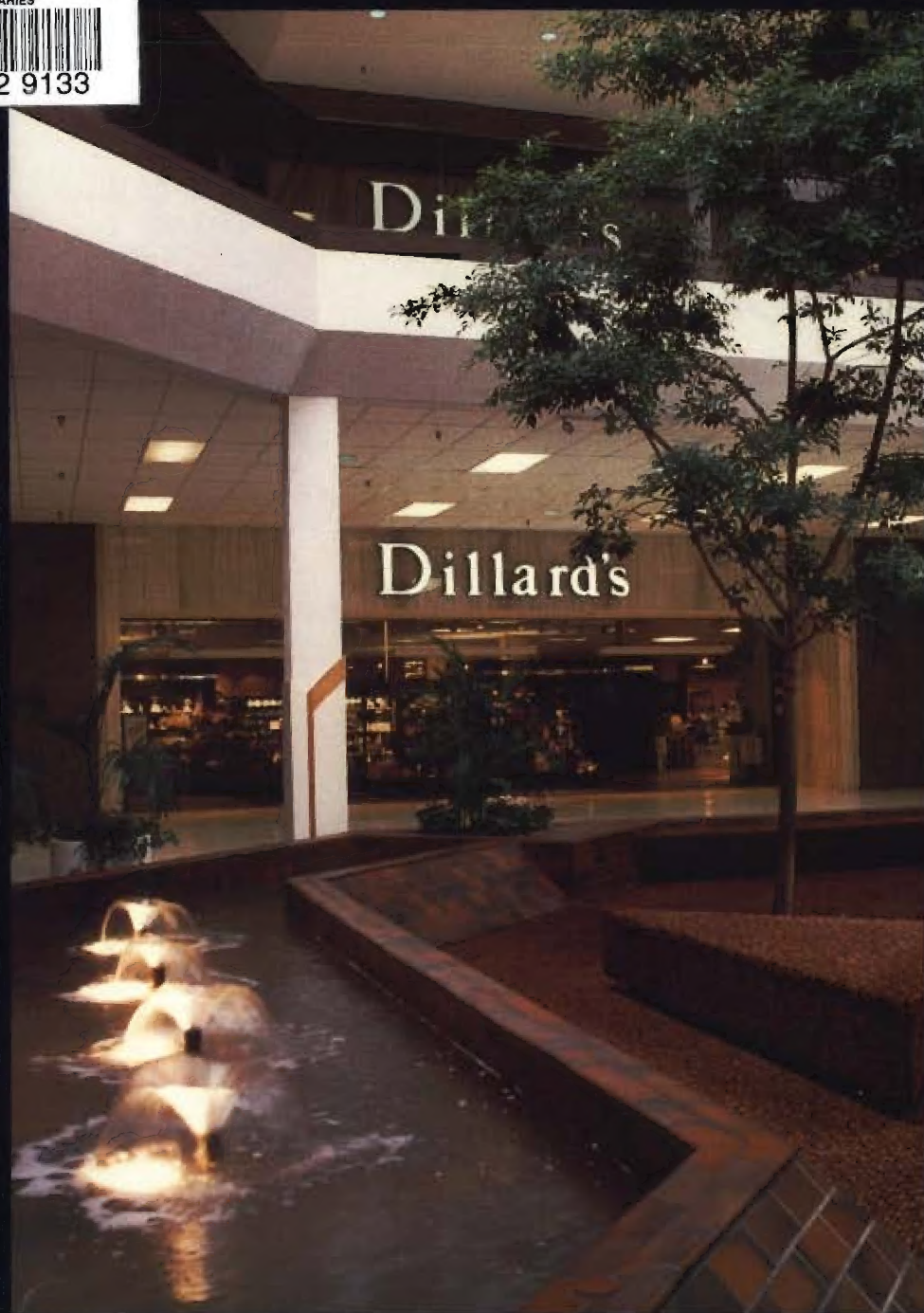
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DILLARD DEPARTMENT STORES, INC.

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1984 • ANNUAL • REPORT

The Corporation

Dillard Department Stores, Inc., is a regional group of traditional department stores operating 93 stores at year end: 37 in Texas, 12 in Oklahoma, 10 in Missouri, 9 in Arizona, 7 in Arkansas, 4 in Louisiana, 4 in Tennessee, 3 in Kansas, 3 in Nevada, 3 in New Mexico and 1 in Illinois. The stores vary in size from 40,000 square feet to 240,000 square feet. The stores feature branded goods in the middle to upper-middle price ranges and cater to a broad spectrum of the population. Special emphasis is placed upon fashion-oriented apparel and home furnishings.

General Information

Annual Meeting:

Friday, May 17, 1985 at 9:30 A.M.
Board Room
Union National Bank
Capitol and Louisiana
Little Rock, Arkansas 72201

Form 10-K:

Copies of the Company's
10-K Annual Report may be
obtained by written request to:
J. K. Jameson, III, Vice President
Post Office Box 486
Little Rock, Arkansas 72203

Corporate Headquarters:

900 West Capitol Avenue
Little Rock, Arkansas 72201
Mailing Address:
Post Office Box 486
Little Rock, Arkansas 72203
Telephone: 501-376-5200
Telex 901-722-7322

Transfer Agent and Registrar:

Centerre Trust Company
St. Louis, Missouri

Listing:

American Stock Exchange
Ticker Symbol "DDSA"

About the Cover:

Front Cover: Oak Park Center
Kansas City, Kansas
Acquired January, 1984
Back Cover: Oakwood Mall
Enid, Oklahoma
Opened February, 1984



*(Above) Irving Mall
Irving (Dallas), Texas*

*(Below) Independence Plaza
Kansas City, Missouri*

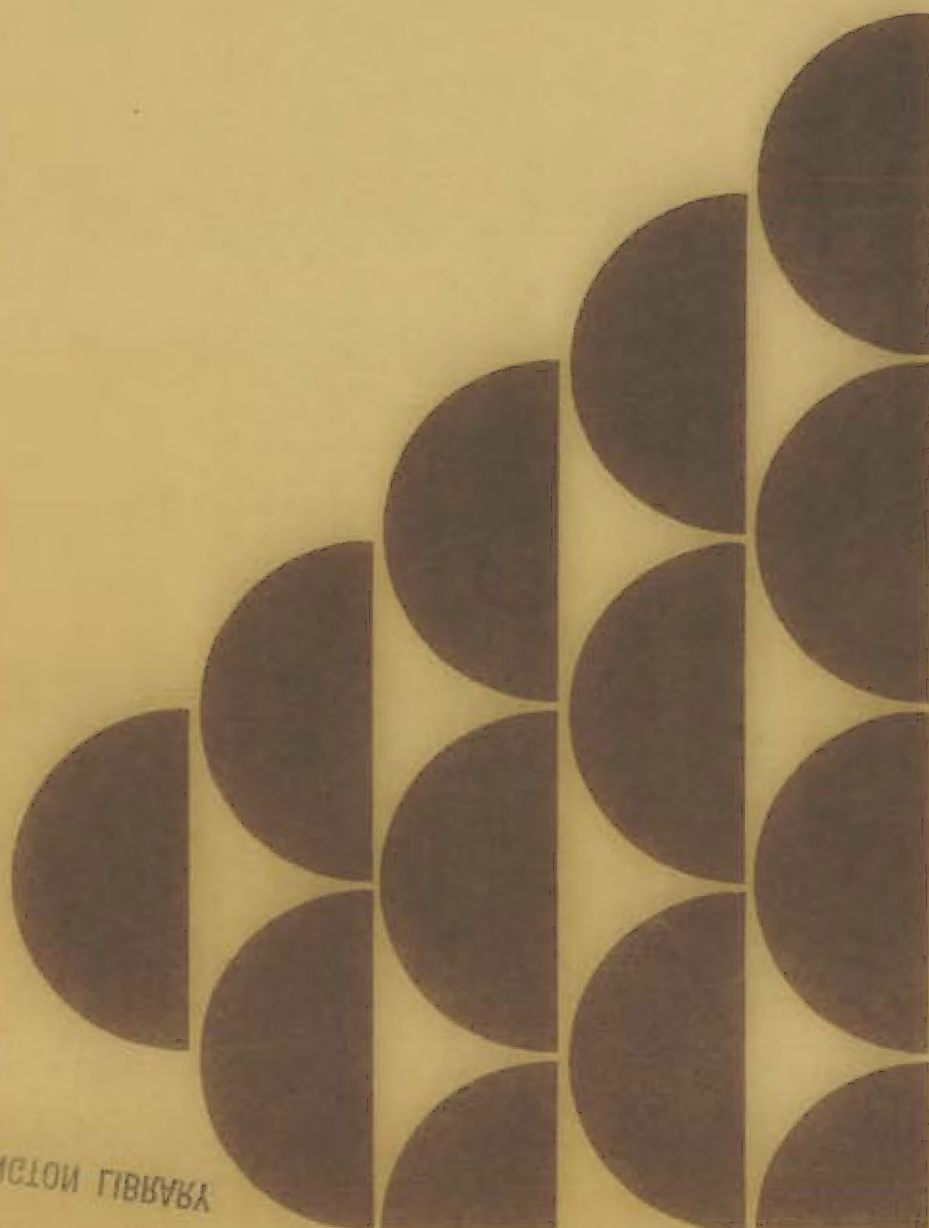




Dillard's

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Dillard's



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Financial Highlights

(In thousands of dollars except per share amounts)

	1984	1983
Net Sales	\$ 1,277,280	\$ 847,485
Income Before Income Taxes	87,608	59,939
Net Income	49,558	34,139
Per Common Share	3.63	2.76
Average Number of Common Shares Outstanding	13,657,288	12,346,218
Book Value Per Share	20.49	14.72
Dividend Per Common Share . . . . .	.175	.15
Number of Stores in Operation at Year End	93	66
Number of Employees — Average	12,965	8,940
Number of Stockholders at Year End	1,914	1,698

Stock Prices and Dividends By Quarter

Quarter	Sale Price — Common Shares				Dividends Per Share	
	1984		1983		1984	1983
	High	Low	High	Low		
First	\$26.13	\$21.63	\$24.44	\$11.88	\$.0375	\$.0375
Second	27.25	23.38	29.50	22.13	.0375	.0375
Third	41.88	26.06	31.38	24.07	.05	.0375
Fourth	47.75	36.25	29.75	25.88	.05	.0375



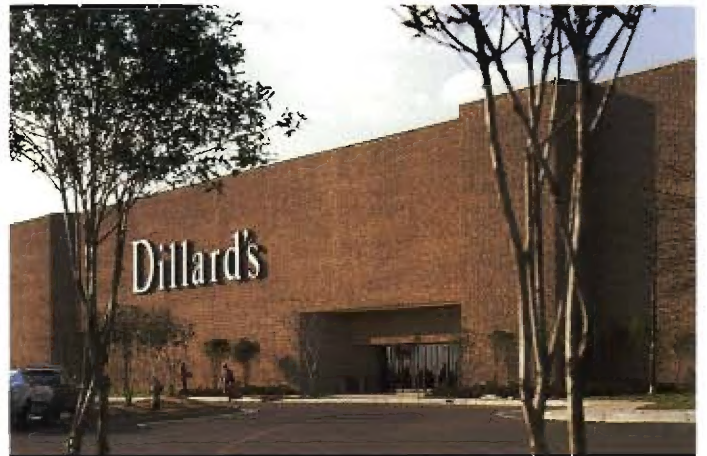
(Above) McCain Mall
North Little Rock, Arkansas





*(Above) William Dillard
Chairman of the Board
Chief Executive Officer*

*(Bottom Right) Mall of Memphis
Memphis, Tennessee*



Letter To Stockholders

This has been a very eventful year for Dillard Department Stores, Inc. Again, new records were set with 1984: Sales of \$1,277,280,000 and income before income taxes of \$87,608,000. Net income after taxes amounted to \$49,558,000. Our earnings per share amounted to \$3.63 versus \$2.76 last year. In the past ten years Dillard's has grown from annual sales of \$173,424,000 and net income of \$2,849,000. The ten year compound growth rate for sales was 22.1% and for income was 33.1%. The five year compound growth for sales was 26.7% and for income was 42.9%.

Average shares outstanding this year were 13,657,288 as compared to 12,346,218 last year.

All share and per share references have been restated to reflect two-for-one stock splits which occurred on August 30, 1984 and March 14, 1983.

The sales gain this year was 50.7%, contributed to by the acquisitions that were made during the year. The store-for-store gain for the year was 14.8%, reflecting a good growth in existing stores after the 15.3% store-for-store gain last year.

On January 30, 1984 we purchased the twelve store Stix, Baer & Fuller division from Associated Dry Goods Corporation. These stores are located in the St. Louis and Kansas City markets.



On September 30, 1984 we purchased the five store John A. Brown division and the twelve store Diamond's division from Dayton Hudson Corporation. The Brown stores are located in Oklahoma City and Tulsa, Oklahoma. The Diamond's stores are located in Phoenix and Tucson, Arizona and Las Vegas, Nevada.

*(Top) Battlefield Mall
Springfield, Missouri*

*(Above) Washington Park Mall
Bartlesville, Oklahoma*

Letter To Stockholders

(continued)

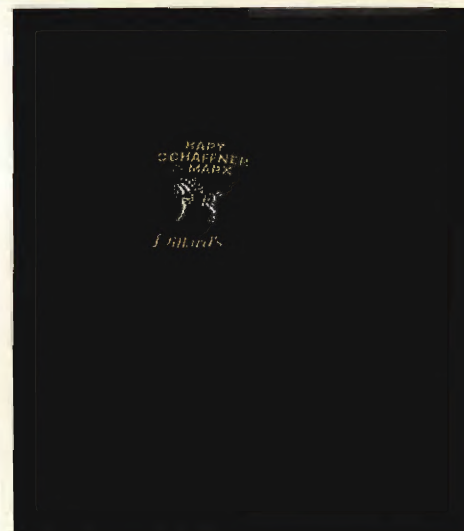
The purchase price for the acquisitions approximated \$93,000,000 for the Stix division and approximated \$143,000,000 for the Brown and Diamond's divisions.

The stockholders' equity was increased twice during the year to facilitate these acquisitions. On January 30, 1984 we issued 600,000 shares of our Class A Common Stock to Associated Dry Goods Corporation in part payment of the Stix division stores. On October 2, 1984 the Company sold 1,337,219 shares of Class A Common Stock in a public offering and concurrent private placement. These two sales of equity netted the Company \$15,750,000 and \$49,723,000 in new equity.

In addition to the increase in equity, long term debt has been placed totalling \$120,000,000. Under five separate placements, the terms range from five to ten years, and the rates of interest are fixed rates varying from 11-7/16% to 13-3/8% per annum and a floating rate at prime not to exceed 13%. The maturities during 1985 on these placements will be \$15,000,000.

Through our wholly owned finance subsidiary, Dillard Investment Co., Inc., we maintain bank lines under a revolving credit agreement

of \$200,000,000 and a commercial paper facility of \$25,000,000 to fund the purchase of customer accounts receivable from the Company. During the year these facilities were increased \$100,000,000 from \$125,000,000 to \$225,000,000. The year end borrowings on these facilities have been increased \$90,000,000 from \$125,000,000 at January 28, 1984 to \$215,000,000 at February 2, 1985.



The net effect of the financing and the provision of necessary working capital for the 1984 acquisitions has been the increase in stockholders' equity by \$65,000,000, long term debt by \$120,000,000

and the utilization of proceeds from the sale of accounts receivable of \$90,000,000.

The original evaluation of the potential purchase of the Stix stores has been con-

firmed by its operation during our first year. The public acceptance of Dillard ownership at the stores has been gratifying. At the time of the initial takeover, all data collecting and management reporting systems were converted to those used by the entire Company. The financial, accounting and credit operations were totally discontinued at Stix and were assumed by our existing operation. These and other changes resulted in sizeable expense reductions. These reductions were reinvested in additional inventory, advertising and sales personnel in the stores. The result has been sales increases exceeding our plans, with the stores making a positive contribution during the first year.



*(Above) Oak Park Center
Kansas City, Kansas*

Letter To Stockholders

(continued)



*(Above) Tucson Mall
Tucson, Arizona*

*(Bottom Right) Westridge Mall
Phoenix, Arizona*



Immediately after their acquisition, the John A. Brown stores were merged into our Fort Worth division. The performance of our stores in the Tulsa and Oklahoma City markets has been improved by the Brown acquisition.

The Diamond stores were operated under their existing systems until January 20th, at which time they were converted to our systems. The sales volume and profit contribution from these stores were above our initial expectations.

During 1983 and 1984 the development of new shopping centers was greatly reduced by the economic events of the earlier 80's. For these two years we opened only four new stores. Beginning in 1985, the tempo of new center openings will return to a more normal level and we will be opening an increased number of stores in 1985, 1986 and beyond.

A new 130,000 square foot store was opened in Irving Mall, Irving, Texas, on March 14, 1984. Irving is part of the Dallas market. In the Dallas-Fort Worth metroplex we now have ten stores.

On February 29 and August 1, we opened new 70,000 square foot stores in Enid, Oklahoma and Bartlesville, Oklahoma.

New stores to open in 1985 are in Hutchinson, Kansas; Jefferson City, Missouri; Fort Smith, Arkansas; Monroe,



Louisiana; Columbia, Missouri; Santa Fe, New Mexico; and St. Louis Centre, a new re-development in downtown St. Louis, Missouri.

For 1986 new stores will be opened in Sherman, Texas; Alexandria, Louisiana; Pine Bluff, Arkansas; Beaumont, Texas and Tulsa, Oklahoma.

*(Top) Chesterfield Mall
St. Louis, Missouri*

*(Above) Metro Center
Phoenix, Arizona*

Letter To Stockholders

(continued)

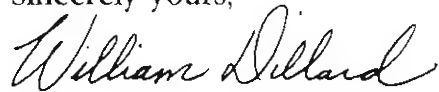
Expansion and major remodeling will occur during 1985 in Valley View Center, Dallas, Texas; Southland Center, Tulsa, Oklahoma; Westroads Mall, St. Louis, Missouri; Independence Plaza, Independence, Missouri; and Oak Park Center, Kansas City, Kansas.

Dillard's is now operating in eleven states. We are in most of the major markets in our operating territory. The boundaries of this territory extend from St. Louis and Kansas City on the north; to Brownsville, Texas on the south; to Memphis, Tennessee on the east; and to Las Vegas, Nevada on the west. Our presence throughout this trade territory has made Dillard's clearly the dominant department store operation of the Southwest. Our expansion and remodeling of existing stores and our new store program will contribute to this dominant position.

For the new year we will attempt to improve productivity of our existing stores. Our store-for-store gain of 14.8% in 1984 and 15.3% in 1983 indicates there is ample opportunity for future growth in existing stores.

We are confident that our growth in sales and net income will continue at an acceptable level.

Sincerely yours,



William Dillard



*(Top) St. Clair Square
Fairview Heights (St. Louis), Illinois*

*(Above) Irving Mall
Irving (Dallas), Texas*

Corporate Organization

Management

William Dillard
Chairman of the Board
Chief Executive Officer

E. Ray Kemp
Vice Chairman
Chief Administrative Officer

William Dillard, II
President
Chief Operating Officer

Alex Dillard
Executive Vice President

Mike Dillard
Executive Vice President

J. K. Jameson, III
Vice President
Secretary-Treasurer

W. R. Appleby
Jan E. Bolton
Donald C. Bradley
Joe Brennan
G. Kent Burnett
A. B. Cannon
Wynelle Chapman
Drue Corbusier
William Cummins
David M. Doub
Charles E. Franzke
T. R. Gastman
J. M. Gus Hannahs
Charles A. Hobbs
Louis V. McGaugh
Richard Maney
Kathy Mayes
Harry D. Passow
C. F. Plunkett
M. E. Ritchie, Jr.
Dick Roberds
David Sanguinetti
J. W. Sherburne
Burt Squires
Joseph W. Story
J. B. Wilson
Vice Presidents

Operating Divisions

FORT WORTH

J. W. Sherburne
Chairman

W. R. Appleby
President

Drue Corbusier
Vice President-Merchandising

J. M. Gus Hannahs
Vice President-Merchandising

William Cummins
Vice President-Merchandising

Ken Moore
Vice President-Operations

Roy J. Grimes
Vice President-Stores

N. M. Tiernan
Vice President-Stores

John A. Franzke
Vice President-Sales Promotion

LITTLE ROCK

T. R. Gastman
Chairman

Mike Dillard
President

David M. Doub
Vice President-Merchandising

Burt Squires
Vice President-Merchandising

Nelson Hensley
Vice President-Operations

Ken Eaton
Vice President-Stores

Frank Arnone
Vice President-Sales Promotion

PHOENIX

G. Kent Burnett
President

Bernie Goldstein
Vice President-Stores

Joe Brennan
Vice President-Merchandising

David Sanguinetti
Vice President-Merchandising

Patrick Rush
Vice President-Operations

Bonnie Burton
Vice President-Sales Promotion

ST. LOUIS

Harry D. Passow
President

Richard Maney
Vice President-Merchandising

Kathy Mayes
Vice President-Merchandising

Michael Bowen
Vice President-Operations

Richard Eagan
Vice President-Stores

Paul Cavalli
Vice President-Sales Promotion

SAN ANTONIO

Charles E. Franzke
Chairman

J. B. Wilson
President

Wynelle Chapman
Vice President-Merchandising

Dick Roberds
Vice President-Merchandising

Gat Lemoine
Vice President-Operations

Mitchell Parrish
Vice President-Stores

Fred Johnson
Vice President-Sales Promotion

Board of Directors

William Dillard
Chairman of the Board

Clarence Barksdale
Chairman of the Board and
Chief Executive Officer
Center Bank N.A.
St. Louis, Missouri

James D. Berry
Chairman of the Board
RepublicBank Corporation
Dallas, Texas

Orson C. Clay
President
Chief Executive Officer
American National Insurance Co.
Galveston, Texas

Will D. Davis
Partner, Heath, Davis & McCalla
Attorneys
Austin, Texas

Alex Dillard
Executive Vice President

Mike Dillard
Executive Vice President

William Dillard, II
President

Dr. A. C. R. Dreesmann
Chairman of the Board
Chief Executive Officer
Vendex International B.V.
Amsterdam, The Netherlands

E. Ray Kemp
Vice Chairman of the Board

Anne M. McCarthy
Retired Vice President-Investments
New England Life Insurance Co.

G. Larry Kelley
Chairman of the Board and
Chief Executive Officer
Pickens-Bond Construction Co
Little Rock, Arkansas

John K. Riedy
Chairman of the Board
INTERCO., Inc.
St. Louis, Missouri

B. Finley Vinson
Senior Chairman and
Chairman of the
Executive Committee
First Commercial Corporation
Little Rock, Arkansas

John C. Whitehead
Chairman of the
International Advisory Board
Goldman, Sachs & Co.
New York, New York

Stores in Operation — 1984

ARIZONA

Phoenix Area

- **Fashion Square** (Sept., 1984)
72,000 Sq. Ft.
With Goldwaters
- **Fiesta Mall** (Sept., 1984)
125,000 Sq. Ft.
With Sears, Broadway and Goldwaters
- **Metro Center** (Sept., 1984)
182,000 Sq. Ft.
With Sears, Broadway, Goldwaters and Joske's
- **Paradise Valley** (Sept., 1984)
125,000 Sq. Ft.
With Penney's and Goldwaters
- **Park Central** (Sept., 1984)
166,000 Sq. Ft.
With Penney's and Goldwaters
- **Thomas Mall** (Sept., 1984)
190,000 Sq. Ft.
With Ward's
- **Westridge Mall** (Sept., 1984)
124,000 Sq. Ft.
With Penney's and Sears

Tucson

- **Park Mall** (Sept., 1984)
98,000 Sq. Ft.
With Sears and Broadway
- **Tucson Mall** (Sept., 1984)
119,000 Sq. Ft.
With Penney's, Sears, Mervyn's and Broadway

ARKANSAS

Fayetteville-Springdale

- **Northwest Arkansas Plaza**
(Mar., 1972)
116,000 Sq. Ft.
With Penney's and Sears

Hot Springs

- **Hot Springs Mall**
(Feb., 1982)
70,000 Sq. Ft.
With Penney's and Sears

Jonesboro

- **Indian Mall** (Oct., 1967)
75,000 Sq. Ft.
With Penney's and Sears

Little Rock

- **Downtown** (1963)
40,000 Sq. Ft.
- **Park Plaza** (Mar., 1965)
196,000 Sq. Ft.

North Little Rock

- **McCain Mall** (Sept., 1972)
225,000 Sq. Ft.
With Penney's and Sears

Pine Bluff

- **Jefferson Square** (1964)
60,000 Sq. Ft.

KANSAS

Wichita

- **Towne East Mall** (Aug., 1975)
180,000 Sq. Ft.
With Penney's and Sears
- **Towne West Mall** (Mar., 1981)
160,000 Sq. Ft.
With Penney's and Ward's

LOUISIANA

Baton Rouge

- **Cortana Mall** (Sept., 1976)
180,000 Sq. Ft.
With Penney's, Sears and Goudchaux

Bossier City (Shreveport)

- **Pierre Bossier Mall**
(Aug., 1982)
125,000 Sq. Ft.
With Penney's and Sears

Shreveport

- **Shreve City Center**
(Oct., 1970)
114,000 Sq. Ft.
With Penney's
- **South Park Mall** (July, 1975)
180,000 Sq. Ft.
With Penney's and Ward's

MISSOURI

St. Louis Area

- **Chesterfield Mall**
(Jan., 1984)
198,000 Sq. Ft.
With Sears and Famous-Barr
- **Crestwood Plaza** (Jan., 1984)
170,000 Sq. Ft.
With Sears and Famous-Barr
- **Jamestown Mall** (Jan., 1984)
223,000 Sq. Ft.
With Sears
- **Northwest Plaza** (Jan., 1984)
169,000 Sq. Ft.
With Penney's, Sears and Famous-Barr
- **River Roads Center**
(Jan., 1984)
120,000 Sq. Ft.
With Penney's
- **South County Center**
(Jan., 1984)
141,000 Sq. Ft.
With Penney's and Famous-Barr
- **St. Clair Square** (Illinois)
(Jan., 1984)
175,000 Sq. Ft.
With Penney's, Sears and Famous-Barr
- **Westroads Shopping Center**
(Jan., 1984)
240,000 Sq. Ft.

Kansas City Area

- **Independence Plaza**
(Jan., 1984)
182,000 Sq. Ft.
With Sears and Macy
- **Oak Park Center** (Kansas)
(Jan., 1984)
209,000 Sq. Ft.
With Penney's, Macy and Ward's
- **Ward Parkway Center**
(Jan., 1984)
202,000 Sq. Ft.
With Penney's and Ward's

Springfield

- **Battlefield Mall** (July, 1982)
125,000 Sq. Ft.
With Penney's, Sears, Famous-Barr and Ward's

NEVADA

Las Vegas

- **Boulevard Mall**
(Sept., 1984)
41,000 Sq. Ft.
With Penney's, Sears and Broadway
- **Fashion Show Mall**
(Sept., 1984)
126,000 Sq. Ft.
With Bullock's, Goldwaters, Neiman-Marcus and Sak's Fifth Avenue
- **Meadows Center**
(Sept., 1984)
125,000 Sq. Ft.
With Penney's, Sears and Broadway

NEW MEXICO

Albuquerque

- **Winrock Center** (Nov., 1972)
169,000 Sq. Ft.
With Penney's and Ward's

Farmington

- **Animas Valley Mall**
(Oct., 1982)
70,000 Sq. Ft.
With Penney's and Sears

Las Cruces

- **Mesilla Valley Mall**
(July, 1981)
70,000 Sq. Ft.
With Penney's and Sears

OKLAHOMA

Bartlesville

- **Washington Park Mall**
(Aug., 1984)
70,000 Sq. Ft.
With Penney's and Sears

Enid

- **Oakwood Mall** (Feb., 1984)
70,000 Sq. Ft.
With Penney's

Lawton

- **Central Mall** (Mar., 1980)
100,000 Sq. Ft.
With Penney's and Sears

Midwest City

- **(Oklahoma City) Heritage Park Mall**
(Oct., 1978)
100,000 Sq. Ft.
With Sears and Ward's

Norman

- **Sooner Fashion Mall**
(Aug., 1976)
67,000 Sq. Ft.
With Penney's and Sears

Oklahoma City

- **Crossroads Mall** (Oct., 1973)
193,000 Sq. Ft.
With Penney's and Ward's
- **Penn Square** (Sept., 1984)
127,000 Sq. Ft.
With Ward's
- **Quail Springs Mall**
(Oct., 1980)
204,000 Sq. Ft.
With Penney's and Sears
- **Shepherd Mall** (Sept., 1967)
160,000 Sq. Ft.
With Penney's adjacent to Sears

Tulsa

- **Southland Shopping Center**
(Mar., 1965)
122,000 Sq. Ft.
With Penney's
- **Utica Square** (Sept., 1984)
76,000 Sq. Ft.
- **Woodland Hills Mall**
(Oct., 1976)
180,000 Sq. Ft.
With Penney's, Sears and Sanger-Harris

TENNESSEE

Memphis

- **Mall of Memphis** (Oct., 1981)
204,000 Sq. Ft.
With Penney's and Thalhimers
- **Poplar Plaza Shopping Center**
(Mar., 1982)
120,000 Sq. Ft.
With Penney's
- **Raleigh Springs Mall**
(Mar., 1982)
149,000 Sq. Ft.
With Penney's, Sears and Goldsmith's
- **Whitehaven Plaza Shopping Center** (Mar., 1982)
60,000 Sq. Ft.

TEXAS

Abilene

- **Mall of Abilene** (Mar., 1979)
100,000 Sq. Ft.
With Penney's and Sears

Amarillo

- **Westgate Mall** (Oct., 1982)
160,000 Sq. Ft.
With Sears and Mervyn's

Austin

- **Barton Creek Square**
(Mar., 1982)
204,000 Sq. Ft.
With Penney's, Sears, Foley's and Ward's
- **Hancock Shopping Center**
(Feb., 1964)
88,000 Sq. Ft.
With Sears

Brownsville

- **Amigoland Mall** (Nov., 1973)
107,000 Sq. Ft.
With Penney's and Ward's

Bryan-College Station

- **Post Oak Mall** (Mar., 1982)
100,000 Sq. Ft.
With Sears and Foley's

Corpus Christi

- **Padre Staples Mall**
(Mar., 1970)
124,000 Sq. Ft.
With Penney's

Denton

- **Golden Triangle Mall**
(Sept., 1980)
100,000 Sq. Ft.
With Penney's, Sears and Ward's

El Paso

- **Cielo Vista Mall** (Nov., 1974)
193,000 Sq. Ft.
With Penney's, Sears, Joske's and Ward's

Harlingen

Valle Vista Mall (Aug., 1983)
100,000 Sq. Ft.
With Sears

Killeen

Killeen Mall (July, 1981)
70,000 Sq. Ft.
With Penney's and Sears

Laredo

Mall Del Norte (Sept., 1977)
88,000 Sq. Ft.
With Sears and Ward's

Longview

Longview Mall (Aug., 1978)
100,000 Sq. Ft.
With Penney's and Sears

Lubbock

South Plains Mall
(July, 1972)
156,000 Sq. Ft.
With Penney's and Sears

McAllen

La Plaza Mall (Mar., 1978)
140,000 Sq. Ft.
With Penney's, Sears and
Jones & Jones

Midland

Midland Park Mall
(July, 1980)
100,000 Sq. Ft.
With Penney's and Sears

Odessa

Permian Mall (Feb., 1980)
100,000 Sq. Ft.
With Penney's and Sears

San Antonio

Central Park Mall
(Mar., 1968)
140,000 Sq. Ft.
With Sears

Ingram Park Mall
(Oct., 1979)

180,000 Sq. Ft.
With Penney's, Sears,
Joske's and Foley's

Military Drive Plaza
(Aug., 1968)
82,000 Sq. Ft.
With Sears

Windsor Park Mall

(July, 1976)
180,000 Sq. Ft.
With Penney's, Joske's
and Ward's

Temple

Temple Mall (Aug., 1976)
67,000 Sq. Ft.
With Penney's and Sears

Texarkana

Central Mall (Aug., 1978)
100,000 Sq. Ft.
With Penney's and Sears

Tyler

Broadway Square
(Feb., 1974)
107,000 Sq. Ft.
With Penney's and Sears

Victoria

Victoria Mall (Mar., 1981)
70,000 Sq. Ft.
With Sears

Waco

Richland Fashion Mall
(Mar., 1980)
100,000 Sq. Ft.
With Penney's and Sears

Wichita Falls

Sikes Center (Oct., 1974)
110,000 Sq. Ft.
With Penney's

DALLAS FORT WORTH METROPLEX

Arlington

Forum 303 Mall (1974)
170,000 Sq. Ft.
With Ward's

Dallas

Valley View Shopping Center
(Oct., 1979)
200,000 Sq. Ft.
With Sears, Sanger-Harris and
Bloomingdale's

Fort Worth

Ridgmar Mall (Feb., 1976)
204,000 Sq. Ft.
With Penney's, Sears and
Neiman-Marcus
Seminary South Shopping Center
(Oct., 1978)
127,000 Sq. Ft.
With Penney's and Sears
Tandy Center (Oct., 1977)
106,000 Sq. Ft.

Hurst

Northeast Mall (1974)
205,000 Sq. Ft.
With Penney's, Sears and Ward's

Irving (Dallas)

■ **Irving Mall** (Mar., 1984)
130,000 Sq. Ft.
With Penney's, Sears,
Joske's and Mervyn's

Mesquite (Dallas)

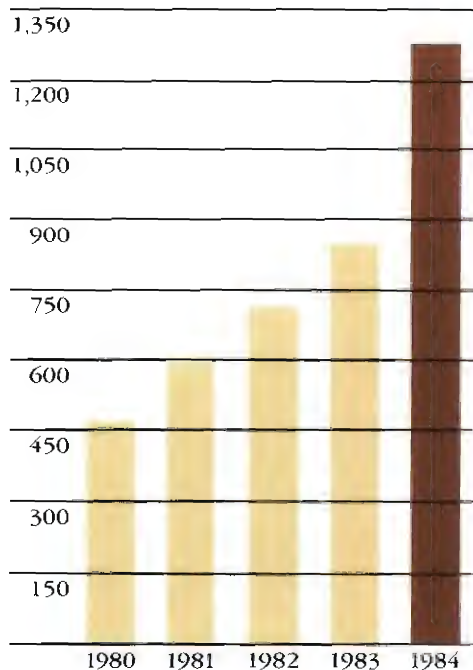
Town East Shopping Center
(Aug., 1982)
190,000 Sq. Ft.
With Sears, Sanger-Harris
and Joske's

Plano (Dallas)

Collin Creek Mall (July, 1981)
195,000 Sq. Ft.
With Penney's, Sears,
Lord & Taylor and Sanger-Harris

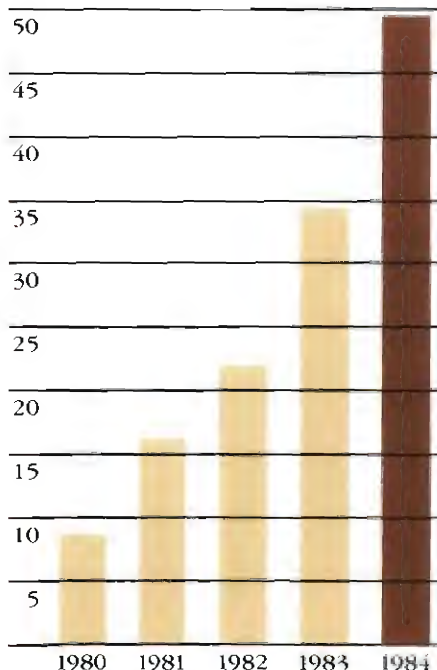
Richardson (Dallas)

Richardson Square (Oct., 1979)
160,000 Sq. Ft.
With Sears, Joske's and Ward's



Net Sales

(in millions)



Net Income

(in millions)

Retail Stores

- Stores Opened 1984
- Stores Acquired 1984

Based in Little Rock, Dillard Department Stores, Inc. operates 95 stores in the following cities located throughout the south:

Abilene, TX	Harlingen, TX	Norman, OK
Albuquerque, NM	Hot Springs, AR	North Little Rock, AR
Amarillo, TX	Hurst, TX	Odessa, TX
Arlington, TX	Irving (Dallas), TX	Oklahoma City, OK
Austin, TX	Jonesboro, AR	Phoenix, AZ
Bartlesville, OK	Kansas City, KS	Pine Bluff, AR
Baton Rouge, LA	Kansas City, MO	Plano (Dallas), TX
Beaumont, TX	Killeen, TX	Richardson (Dallas), TX
Brownsville, TX	Laredo, TX	St. Louis, MO
Bryan College Station, TX	Las Cruces, NM	San Antonio, TX
Corpus Christi, TX	Lubbock, TX	Shreveport, LA
Dallas, TX	Lawton, OK	Springfield, MO
Denton, TX	Little Rock, AR	Tempe, AZ
El Paso, TX	Longview, TX	Texarkana, TX
Enid, OK	Lubbock, TX	Tucson, AZ
Enterprise, AL	McAllen, TX	Tulsa, OK
Fort Lupton, IL	Memphis, TN	Tyler, TX
Farmington, NM	Mesquite (Dallas), TX	Victoria, TX
Fayetteville, AR	Midland, TX	Waco, TX
Springdale, AR	Midwest City, OK	Wichita, KS
Fort Worth, TX	(Oklahoma City), OK	Wichita Falls, TX



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Five Year Table of Selected Financial Data

Dillard Department Stores, Inc.

(In thousands of dollars except per share data)

	1984 ¹	1983	1982	1981	1980
Net Sales	\$ 1,277,280	\$ 847,485	\$ 711,323	\$ 592,867	\$ 470,733
Percent Increase	50.7	19.1	20.0	25.9	20.3
Cost of Sales	811,522	532,058	444,916	374,247	304,628
Percent of Sales	63.5	62.8	62.5	63.1	64.7
Interest and Debt Expense	37,720	23,067	26,668	25,223	21,496
Income Before Taxes	87,608	59,939	35,256	27,259	12,506
Income Taxes	38,050	25,800	13,300	11,000	4,000
Net Income	49,558	34,139	21,956	16,259	8,506
Per Common Share					
Net Income	3.63	2.76	1.86	1.38	.72
Dividends .....	.175	.15	.10	.10	.10
Book Value	20.49	14.72	11.62	9.88	8.59
Average Number of Shares Outstanding	13,657,288	12,346,218	11,766,956	11,745,032	11,744,376
Accounts Receivable — Total	333,830	195,274	161,490	126,083	107,417
Merchandise Inventories	252,239	150,829	119,348	99,291	85,014
Property and Equipment	325,736	182,921	169,910	153,502	131,075
Total Assets	748,187	451,110	372,486	343,954	303,333
Long Term Debt	71,835	13,690	26,645	48,500	35,850
Mortgage Debt	122,826	79,344	80,391	65,208	77,070
Capitalized Lease Obligations	15,575	16,411	17,330	18,291	19,163
Deferred Income Taxes — Total	72,778	49,738	41,050	31,550	22,021
Stockholders' Equity	298,353	185,553	137,291	116,403	101,340
Number of Employees — Average	12,965	8,940	8,280	7,050	6,290
Number of Stores					
Opened	3	1	11	6	6
Acquired	25	—	—	—	—
Closed	1	—	2	—	—
Total — End of Year	93	66	65	56	50

¹1984 — 53 Weeks

Management's Discussion and Analysis of Financial Condition and Results of Operation

Sales

Sales for 1984 were 50.7% greater than the prior year. The sales increase for the past five years has been:

	1984	1983	1982	1981	1980
Sales Increase	50.7%	19.1%	20.0%	25.9%	20.3%

Store for store sales increase by quarter for the past three years has been:

	1984	1983	1982
First Quarter	19.4%	3.2%	10.3%
Second Quarter	14.4	10.7	7.2
Third Quarter	11.4	19.3	1.4
Fourth Quarter	15.1	22.3	1.8
Year	14.8	15.3	4.5

The decrease in store for store sales increase beginning in the second quarter 1982 through the first quarter 1983 was strongly influenced by the Mexican peso devaluation.

Cost of Sales

Cost of sales for the last five years has been:

	1984	1983	1982	1981	1980
Cost of Sales	63.5%	62.8%	62.5%	63.1%	64.7%

During 1984, the cost of sales percentage includes a credit of \$500,000, which was the LIFO adjustment for the year. The corresponding charge in 1983 was \$1,400,000, in 1982 was \$400,000, in 1981 was \$4,900,000 and in 1980 was \$1,800,000. The year 1980 was the first year requiring a LIFO charge to operations.

At February 2, 1985, the LIFO reserve was \$8,000,000.

The sales mix for the last five years by category and percent of total sales has been:

	1984	1983	1982	1981	1980
<i>Owned Departments</i>					
Women's Clothing & Accessories	39.9%	37.7%	36.6%	34.6%	31.4%
Juniors' & Children's Clothing & Accessories	13.2	14.3	14.5	14.5	13.5
Men's Clothing & Accessories	16.3	15.7	15.4	15.2	14.9
Home Accessories	13.8	15.2	15.3	16.6	17.4
Furniture, TV & Appliances	7.6	8.1	8.5	8.2	10.1
	90.8	91.0	90.3	89.1	87.3
<i>Leased Departments</i>					
Shoes	4.4	4.6	5.0	5.0	4.8
Handbags & Millinery	—	—	—	1.0	2.5
Fine Jewelry	2.6	2.7	2.7	2.8	2.9
Other	2.2	1.7	2.0	2.1	2.5
	9.2	9.0	9.7	10.9	12.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Management's Discussion and Analysis of Financial Condition and Results of Operation

(continued)

Expenses

Expenses as a percent of sales have varied for the past five years as follows:

	1984	1983	1982	1981	1980
Advertising, Selling, Administrative & General	25.5%	25.8%	26.8%	26.1%	26.7%
Depreciation & Amortization	2.4	2.6	2.6	2.6	2.7
Rentals	2.0	2.4	2.5	2.3	2.2
Interest & Debt Expense	3.0	2.7	3.7	4.3	4.6

Real Estate

At year end the Company owned 34 store buildings:

McCain Mall North Little Rock	Forum 303 Arlington	Town East Shopping Center Dallas	Irving Mall Dallas
Winrock Center Albuquerque	Heritage Park Mall Midwest City	Chesterfield Mall St. Louis	Washington Park Mall Bartlesville
Crossroads Mall Oklahoma City	Valley View Shopping Center Dallas	Jamestown Mall St. Louis	Fiesta Mall Phoenix
South Park Mall Shreveport	Quail Springs Mall Oklahoma City	South County Center St. Louis	Metro Center Phoenix
Ridgmar Mall Fort Worth	Mall of Memphis Memphis	St. Clair Square Fairview Heights (St. Louis)	Paradise Valley Phoenix
Windsor Park Mall San Antonio	Hot Springs Mall Hot Springs	Westroads Mall St. Louis	Westridge Mall Phoenix
Cortana Mall Baton Rouge	Post Oak Mall Bryan-College Station	Independence Plaza Kansas City	Tucson Mall Tucson
Woodland Hills Tulsa	Barton Creek Square Austin	Ward Parkway Center Kansas City	Fashion Show Mall Las Vegas
Northeast Mall Fort Worth			Meadows Center Las Vegas

The square footage of company owned store buildings is 5,645,000.

Buildings now leased by the Company on which purchase options exist are:

Sooner Fashion Mall Norman	Westgate Mall Amarillo	Ingram Park Mall San Antonio	Broadway Square Tyler
Mall of Abilene Abilene	Cielo Vista Mall El Paso	Richardson Square Richardson (Dallas)	Dillard Distribution Center Fort Worth

Income Taxes

Effective income tax rates have varied substantially through the past five years because of investment tax credits. The rates and credits have been:

Year Ended	Effective Rate	Investment Tax Credits
February 2, 1985	43.4%	\$4,270,000
January 28, 1984	43.0	1,785,000
January 29, 1983	37.7	3,320,000
January 30, 1982	40.4	1,850,000
January 31, 1981	31.9	1,819,000

Trade Accounts Receivable

The year to year percentage growth in sales and accounts receivable has been:

	1984	1983	1982	1981	1980
Sales	50.7%	19.1%	20.0%	25.9%	20.3%
Accounts Receivable	70.9	20.9	28.1	17.4	5.7

The five year compound annual growth rate has been 26.7% for sales and 26.9% for receivables.

The low percentage growth of receivables in 1980 was caused by credit restraints imposed during that year. The increase in 1982 was occasioned by an aggressive credit account promotion during that year to compensate for the slower growth the two previous years.

The composition of total sales for the past three years has been:

	1984	1983	1982
Dillard's Charge	50.4%	48.0%	48.4%
Outside Credit Cards			
Visa, MasterCard, American Express, Diners	12.2	11.1	9.8
Cash	37.4	40.9	41.8
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Liquidity And Source Of Funds

The Company maintains through Dillard Investment Co., Inc. (DIC) a bank credit agreement of \$200,000,000 and a commercial paper facility of \$25,000,000 to fund the purchase of trade accounts receivable from the Company. Through a combination of these two arrangements sufficient capacity is maintained to fund the necessary amount of trade accounts receivable. At year end, a total of \$215,000,000 in facilities was being utilized. The arrangements between the Company and DIC require that the Company maintain an equity within DIC equal to 15% of the total bank lines and commercial paper arrangement. The incremental fund requirement for increases in trade accounts receivable is 15% which must be supplied by the working capital of the Company.

Merchandise inventories at year end, as a percent of sales were:

	1984	1983	1982	1981	1980
Merchandise Inventories	19.7%	17.8%	16.8%	16.7%	18.0%

Merchandise inventories at year end as a percent of sales was year end inventory (\$252,239,000) divided by sales (\$1,277,280,000) or 19.7%. The year end inventory includes the inventory of the Brown and Diamond's acquisitions while sales only include the Brown and Diamond's sales since acquisition on September 30, 1984. The inventory divided by the pro forma sales (\$1,422,649,000) including twelve months for Brown and Diamond's is 17.7%, compared to last year's 17.8%.

The incremental fund requirement for increases in sales for merchandise inventories is approximately 17% of the increased sales less any corresponding increase in trade accounts payable.

Capital expenditures for new stores and remodeling of older stores in 1985 will approximate \$28,500,000.

Auditors' Report

Stockholders and Board of Directors
Dillard Department Stores, Inc.
Little Rock, Arkansas

We have examined the consolidated balance sheets of Dillard Department Stores, Inc. and consolidated subsidiary as of February 2, 1985 and January 28, 1984, and the related consolidated statements of income and retained earnings and changes in financial position for each of the three years in the period ended February 2, 1985. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Dillard Department Stores, Inc. and consolidated subsidiary at February 2, 1985 and January 28, 1984, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended February 2, 1985, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Little Rock, Arkansas
March 15, 1985

Consolidated Balance Sheets

Dillard Department Stores, Inc.

<i>(In thousands of dollars)</i>	February 2 1985	January 28 1984
Assets		
CURRENT ASSETS		
Cash and short-term investments	\$ 28,599	\$ 23,148
Trade accounts receivable — Note C	34,882	18,909
Receivable from Dillard Investment Co., Inc.	54,335	38,999
Merchandise inventories — Note A	252,239	150,829
Supplies and prepaid expenses	1,886	1,153
TOTAL CURRENT ASSETS	371,941	233,038
INVESTMENTS AND OTHER ASSETS		
Equity in net assets of Dillard Investment Co., Inc.	35,449	21,441
Other	3,365	1,066
	38,814	22,507
PROPERTY AND EQUIPMENT — Notes D and J		
Land and land improvements	12,671	9,938
Building and leasehold improvements	170,056	88,011
Furniture, fixtures and equipment	226,467	155,070
Buildings under construction	15,454	3,923
Less accumulated depreciation and amortization	(98,912)	(74,021)
	325,736	182,921
BUILDINGS UNDER CAPITAL LEASES, less amortization (1985 — \$12,520; 1984 — \$11,572) — Note I	11,696	12,644
	\$748,187	\$451,110
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES		
Trade accounts payable and accrued expenses — Note E	\$134,102	\$ 89,489
Federal and state income taxes	13,813	11,966
Deferred income taxes	45,738	28,551
Current portion of long-term debt	18,069	4,000
Current portion of capital lease obligations	836	919
TOTAL CURRENT LIABILITIES	212,558	134,925
LONG-TERM DEBT, less current portion — Note D		
Notes payable	71,835	13,690
Real estate and mortgage notes	122,826	79,344
	194,661	93,034
CAPITAL LEASE OBLIGATIONS, less current portion — Note I	15,575	16,411
DEFERRED INCOME TAXES	27,040	21,187
STOCKHOLDERS' EQUITY — Notes D, G and H		
Preferred Stock	440	440
Common Stock	36,508	31,590
Additional paid-in capital	99,687	38,967
Retained earnings	161,986	114,824
Less treasury stock, at cost	(268)	(268)
	298,353	185,553
OPERATING LEASES AND COMMITMENTS — Note J		
	\$748,187	\$451,110

See notes to consolidated financial statements.

Consolidated Statements of Income and Retained Earnings

Dillard Department Stores, Inc.

	Year Ended		
	February 2 1985	January 28 1984	January 29 1983
<i>(In thousands of dollars except per share data)</i>			
Net sales, including sales of leased departments	\$1,277,280	\$847,485	\$711,323
Service charges, interest and other	40,924	29,223	22,864
	<u>1,318,204</u>	<u>876,708</u>	<u>734,187</u>
Costs and expenses:			
Cost of sales	811,522	532,058	444,916
Advertising, selling, administrative and general expenses	325,624	218,938	191,060
Depreciation and amortization	30,435	22,380	18,533
Rentals — Note J	25,295	20,326	17,754
Interest and debt expense — Note D	37,720	23,067	26,668
	<u>1,230,596</u>	<u>816,769</u>	<u>698,931</u>
INCOME BEFORE INCOME TAXES	87,608	59,939	35,256
Federal and state income taxes — Note F	38,050	25,800	13,300
NET INCOME	49,558	34,139	21,956
Retained earnings at beginning of year	114,824	82,561	61,804
	<u>164,382</u>	<u>116,700</u>	<u>83,760</u>
Cash dividends:			
Preferred Stock, \$5 a share	22	22	22
Common Stock, 1984 — \$.175 a share; 1983 — \$.15 a share; 1982 — \$.10 a share	2,374	1,854	1,177
	<u>2,396</u>	<u>1,876</u>	<u>1,199</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 161,986</u>	<u>\$114,824</u>	<u>\$ 82,561</u>
Net income per common share	<u>\$3.63</u>	<u>\$2.76</u>	<u>\$1.86</u>

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

Dillard Department Stores, Inc.

	Year Ended		
	February 2 1985	January 28 1984	January 29 1983
<i>(In thousands of dollars)</i>			
SOURCE OF FUNDS			
Net income	\$ 49,558	\$34,139	\$21,956
Charges (credits) to income not affecting current working capital:			
Depreciation and amortization	30,435	22,380	18,533
Deferred income taxes	5,853	3,699	2,254
Net income of Dillard Investment Co., Inc.	(3,483)	(1,917)	(2,010)
TOTAL FROM OPERATIONS	82,363	58,301	40,733
Acquisition of businesses, net of working capital acquired of \$136,027 — Note B:			
Long-term debt issued	100,000	—	—
Common Stock issued or sold	65,473	—	—
Property and equipment	(100,316)	—	—
Other assets	(117)	—	—
Net carrying amount of property and equipment sold	7,325	1,035	2,024
Long-term borrowings	19,700	—	16,258
Sale of Common Stock	—	15,452	—
Sale of treasury stock	—	250	—
Exercise of stock options	165	297	130
Other — net	(2,182)	698	142
	172,411	76,033	59,287
APPLICATION OF FUNDS			
Additions to property and equipment	79,311	35,425	35,964
Payments and transfers to current maturities on long-term debt	18,073	14,002	22,930
Payments and transfers to current maturities on capital lease obligations	836	919	961
Additional investment in Dillard Investment Co., Inc.	10,525	—	275
Cash dividends	2,396	1,876	1,199
	111,141	52,222	61,329
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 61,270	\$ 23,811	\$ (2,042)
CHANGES IN COMPONENTS OF WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash and short-term investments	\$ 5,451	\$ (339)	\$ 3,040
Trade accounts receivable	15,973	685	5,023
Receivable from Dillard Investment Co., Inc.	15,336	32,902	(16,543)
Merchandise inventories	101,410	31,481	20,057
Supplies and prepaid expenses	733	666	(596)
	138,903	65,395	10,981
Increase (decrease) in current liabilities:			
Trade accounts payable and accrued expenses	44,614	26,512	2,974
Federal and state income taxes	1,847	8,926	1,678
Deferred income taxes	17,187	4,989	7,246
Current portion of long-term debt	14,069	1,199	1,037
Current portion of capital lease obligations	(84)	(42)	88
	77,633	41,584	13,023
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 61,270	\$ 23,811	\$ (2,042)

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Dillard Department Stores, Inc.

February 2, 1985

Note A: Description of Business and Summary of Significant Accounting Policies

Description of Business: The Company operates retail department stores located primarily in the Southwest and Midwest. The Company's fiscal year ends on the Saturday nearest January 31. As a result, the year ended February 2, 1985 contains 53 weeks and the years ended January 28, 1984 and January 29, 1983 contain 52 weeks.

Consolidation: The accompanying consolidated financial statements include the Company and its wholly owned real estate subsidiary, Construction Developers, Inc. (which leases property principally to the Company). Intercompany accounts and transactions are eliminated upon consolidation.

Condensed financial information of the wholly owned unconsolidated finance subsidiary, Dillard Investment Co., Inc. (DIC), is presented below:

	February 2 1985	January 28 1984
<i>(In thousands of dollars)</i>		
ASSETS		
Cash	\$ 11,443	\$ 12,606
Accounts receivable purchased	293,448	173,065
Prepaid expenses	—	23
	<u>\$304,891</u>	<u>\$185,694</u>
LIABILITIES AND EQUITY OF PARENT		
Commercial paper and notes payable to banks	\$214,925	\$124,917
Payable to parent	54,335	38,999
Accrued liabilities	182	337
Equity of parent	35,449	21,441
	<u>\$304,891</u>	<u>\$185,694</u>

	<i>Year Ended</i>		
	February 2 1985	January 28 1984	January 29 1983
<i>(In thousands of dollars)</i>			
Interest income	\$21,046	\$11,399	\$12,699
Interest expense	14,563	7,795	8,931
Income before income taxes	6,452	3,547	3,722

Income before income taxes of DIC, all of which is derived from the Company, is deducted from interest expense in the accompanying income statements. The provision for income taxes of DIC is included in consolidated income tax expense.

Undistributed earnings of DIC were \$14,759,000 and \$11,276,000 as of February 2, 1985 and January 28, 1984, respectively, and are included in retained earnings of the Company as of those dates.

Note A:
Description of Business
and Summary of
Significant Accounting
Policies
(continued)

Revenues: Retail sales are recorded on the accrual basis and include leased department sales of \$117,783,000, \$76,108,000 and \$69,229,000 for the years ended February 2, 1985, January 28, 1984 and January 29, 1983, respectively. Credit service charges are recorded monthly on the basis of billed customer account balances. Profits on installment sales are recognized in full for accounting purposes when the sales are recorded.

Costs, Expenses, and Related Balance Sheet Accounts: The retail last-in, first-out (LIFO) inventory method is used to value merchandise inventories, with such LIFO merchandise inventories not being carried in excess of current cost, as determined under the first-in, first-out method. Under this method, at February 2, 1985, January 28, 1984 and January 29, 1983, the LIFO cost of merchandise inventories was approximately \$8,000,000, \$8,500,000 and \$7,100,000, respectively, less than current cost. At February 2, 1985, a market valuation reserve of approximately \$5,600,000 was included in the amount above to offset the increase in certain LIFO merchandise inventories in excess of current cost resulting from the application of the LIFO method to inventories acquired as part of the acquisitions discussed in Note B.

Property and equipment owned by the Company is recorded at cost, which includes related interest costs incurred. Depreciation is computed by the straight-line method for financial reporting purposes. For tax reporting purposes, accelerated depreciation or cost recovery methods are used and the related deferred income taxes are included in noncurrent deferred income taxes on the balance sheet.

Properties leased by the Company under lease agreements which are determined to be capital leases are stated at an amount equal to the present value of the minimum lease payments during the lease term, less accumulated provision for amortization. The properties under capital leases are being amortized on the straight-line method over the related lease terms. The provision for amortization of leased properties is included in depreciation and amortization expense.

Pre-opening costs of new stores are expensed in the fourth quarter of the year such costs are incurred.

Income Taxes: For tax reporting purposes, the installment method of reporting profit on revolving credit and installment sales is used and the related deferred income taxes are classified as a current liability on the balance sheet. Investment tax credits are accounted for by the flow-through method.

Earnings Per Common Share: Earnings per share have been computed based on the weighted average of Class A and Class B Common shares outstanding, after deducting preferred dividend requirements and giving effect to outstanding stock options when material.

Notes To Consolidated Financial Statements

(continued)

Note B: Acquisitions

On January 29, 1984, the Company acquired substantially all of the operating assets of the Stix, Baer & Fuller Division (Stix) of Associated Dry Goods Corporation, including certain real estate owned by an affiliate of Stix, which real estate had formerly been leased to Stix. These assets included 12 department stores (one of which was immediately closed for extensive remodeling) and one warehouse. The aggregate purchase price of the assets acquired was approximately \$93,000,000 and included 600,000 shares of Class A Common Stock. This acquisition has been accounted for as a purchase with the operations of Stix included in the Company's consolidated operations from January 29, 1984.

On September 30, 1984, the Company acquired substantially all of the operating assets of the Diamond's (Diamond's) and John A. Brown (Brown) divisions of Dayton Hudson. The Diamond's assets acquired included 12 stores and one warehouse and the Brown assets acquired included 6 stores. Three of the six Brown stores were located in shopping centers where the Company already operated stores and were combined with the Company's stores in those centers. A fourth Brown store which was operated as a small specialty store was closed. The aggregate purchase price of the Diamond's and Brown assets acquired was approximately \$143,000,000. The Company sold 1,337,219 shares of Class A Common Stock in connection with the financing of this acquisition. This acquisition has been accounted for as a purchase with the operations of Diamond's and Brown included in the Company's consolidated operations from September 30, 1984.

The following unaudited pro forma combined results of operations give effect to the above acquisitions as if they had been completed at the beginning of each year presented:

	February 2 1985	January 28 1984
<i>(In thousands of dollars except per share data)</i>		
Net sales	\$1,422,649	\$1,214,047
Net income	49,426	38,860
Net income per share	3.39	2.78

Note C: Trade Accounts Receivable

By agreement, the Company sells (subject to reassignment of accounts in default) to DIC, substantially all of its customer accounts receivable. The amount of DIC's line of credit (established with certain banks to provide funds for the purchase of the accounts) was \$200,000,000 as of February 2, 1985 and \$100,000,000 as of January 28, 1984. In addition, DIC has \$25,000,000 of commercial paper outstanding.

Trade accounts receivable consist of the following:

	February 2 1985	January 28 1984
<i>(In thousands of dollars)</i>		
Trade accounts receivable	\$333,830	\$195,274
Less: Accounts sold to DIC (net of Company's		
10% interest in such accounts)	(293,448)	(173,065)
Allowance for doubtful accounts	(5,500)	(3,300)
	<u>\$ 34,882</u>	<u>\$ 18,909</u>

**Note D:
Long-Term Debt**

(In thousands of dollars)

**February 2
1985** **January 28
1984**

Promissory notes to institutional lenders (1):		
8.22% and 8.24% notes, payable in annual installments of \$1,100,000 on each February 1 through 1987 with a final payment of \$1,450,000 in 1988	\$ 3,650	\$ 5,850
8.875% notes, payable in annual installments of \$755,000 through 1992	6,040	6,795
10.375% note, due in annual installments of \$400,000 in 1986 through 1995	4,000	4,000
Note payable to a bank at a New York bank prime rate not to exceed 13% (paying 10.5% at February 2, 1985), due in annual installments of \$8,000,000 in 1985 through 1989	40,000	—
Note payable to a bank at rates ranging from 11.4375% to 13.375%, due in annual installments of \$7,000,000 in 1985 through 1989	35,000	—
	<u>88,690</u>	<u>16,645</u>
Current portion	(16,855)	(2,955)
	<u>71,835</u>	<u>13,690</u>
Mortgage notes, payable monthly or quarterly (some with balloon payments) over periods up to 31 years from inception and bearing interest at 8.0% to 13.375% (2)	99,040	80,389
Real estate note (3)	25,000	—
	<u>124,040</u>	<u>80,389</u>
Current portion	(1,214)	(1,045)
	<u>122,826</u>	<u>79,344</u>
	<u>\$194,661</u>	<u>\$93,034</u>

(1) The related loan agreements limit the parent company's funded debt and long-term lease obligations, unless certain financial tests are met, and require the maintenance of prescribed levels of working capital. The agreements also contain provisions which restrict the payment of dividends and the purchase of capital stock for cash. Under the most restrictive provision, in excess of \$70,000,000 of retained earnings were available for the payment of dividends at February 2, 1985.

(2) Buildings (one of which is located on leased land), land and land improvements and equipment with a carrying value of \$84,887,000 at February 2, 1985 are pledged as collateral on these notes.

(3) Represents an unsecured ten year note payable to a bank at 12% for the first five years and a floating rate during the last five years. The note is payable in annual installments of \$1,562,500 in 1986 through 1989, \$1,250,000 in 1990 through 1993 and a final payment of \$13,750,000 in 1994. Proceeds of the note were used to purchase certain real estate and buildings.

Maturities of long-term debt over the next five years are \$18,069,000, \$19,027,000, \$20,303,000, \$20,814,000 and \$19,542,000.

Notes To Consolidated Financial Statements

(continued)

Note D: Long-Term Debt (continued)

Interest and debt expense, exclusive of capitalized interest of \$636,000 in fiscal 1982, consists of the following:

<i>(In thousands of dollars)</i>	February 2 1985	January 28 1984	January 29 1983
Interest	\$20,476	\$12,864	\$15,072
Amortization of debt expense	16	16	251
	20,492	12,880	15,323
Capital lease obligations	1,493	1,583	1,671
Dillard Investment Co., Inc. — net	14,594	7,852	8,977
Other	1,141	752	697
	<u>\$37,720</u>	<u>\$23,067</u>	<u>\$26,668</u>

Note E: Trade Accounts Payable and Accrued Expenses

Trade accounts payable and accrued expenses are comprised of the following:

<i>(In thousands of dollars)</i>	February 2 1985	January 28 1984
Trade accounts payable	\$ 77,959	\$55,632
Accrued expenses:		
Taxes, other than income	12,993	8,089
Compensation	6,449	4,564
Leased departments	6,725	3,460
Interest, rent and other	29,976	17,744
	<u>\$134,102</u>	<u>\$89,489</u>

Note F: Income Taxes

The provision for federal and state income taxes is summarized as follows:

	<i>Year Ended</i>		
<i>(In thousands of dollars)</i>	February 2 1985	January 28 1984	January 29 1983
Federal income taxes:			
Current	\$13,500	\$17,000	\$ 4,050
Deferred	21,550	7,500	8,475
	35,050	24,500	12,525
State income taxes	3,000	1,300	775
	<u>\$38,050</u>	<u>\$25,800</u>	<u>\$13,300</u>

A reconciliation between the effective income tax rate and the statutory federal income tax rate is presented below:

	<i>Year Ended</i>		
<i>(In thousands of dollars)</i>	February 2 1985	January 28 1984	January 29 1983
Income tax at the statutory federal rate of 46%	\$40,300	\$27,572	\$16,218
Investment tax credits	(4,270)	(1,785)	(3,320)
Effect of state income taxes	(1,380)	(598)	(356)
Other	400	(689)	(17)
	<u>\$35,050</u>	<u>\$24,500</u>	<u>\$12,525</u>

Note F:
Income Taxes
(continued)

Deferred income taxes are attributable to the following items:

	<i>Year Ended</i>		
	February 2 1985	January 28 1984	January 29 1983
<i>(In thousands of dollars)</i>			
Installment sales	\$18,928	\$4,469	\$5,216
Inventory valuation reserve	(2,603)	—	159
Investment tax credits	1,251	—	390
Accelerated depreciation and basis differences	4,904	3,312	2,873
Capitalized interest	—	—	217
Other	(930)	(281)	(380)
Total deferred income tax provision	<u>\$21,550</u>	<u>\$7,500</u>	<u>\$8,475</u>

Note G:
Stockholders' Equity

Capital stock is composed of the following:

<i>Type</i>	<i>Par Value</i>	<i>Shares Authorized</i>	<i>Shares Issued and Outstanding</i>		
			February 2 1985	January 28 1984	January 29 1983
Preferred (5% cumulative)	\$100	5,000	4,400	4,400	4,400
Class A, Common	—	20,000,000	13,889,283	11,895,092	11,100,056
Class B, Common	—	800,000	713,868	740,840	752,576

	<i>Common Stock</i>		<i>Additional Paid-In Capital</i>
	<i>Class A</i>	<i>Class B</i>	
Balance at January 30, 1982	\$27,606,210	\$1,942,370	\$24,931,590
Exchange of 24,372 shares	60,930	(60,930)	—
Issuance of 33,200 shares under stock option plan	83,000	—	46,975
Balance at January 29, 1983	27,750,140	1,881,440	24,978,565
Exchange of 11,736 shares	29,340	(29,340)	—
Issuance of 63,300 shares under stock option plan	158,250	—	138,337
Sale of 720,000 shares	1,800,000	—	13,652,281
Sale of 12,160 shares of treasury stock	—	—	197,412
Balance at January 28, 1984	29,737,730	1,852,100	38,966,595
Exchange of 26,972 shares	67,430	(67,430)	—
Issuance of 30,000 shares under stock option plan	75,000	—	90,469
Issuance of 600,000 shares in connection with Stix acquisition — Note B	1,500,000	—	14,250,000
Sale of 1,337,219 shares in connection with Diamond's and Brown acquisition — Note B ..	3,343,048	—	46,380,220
Balance at February 2, 1985	<u>\$34,723,208</u>	<u>\$1,784,670</u>	<u>\$99,687,284</u>

Notes To Consolidated Financial Statements

(continued)

Note G: Stockholders' Equity (continued)

Holders of Class A are empowered as a class to elect one-third of the members of the Board of Directors and the holders of Class B are empowered as a class to elect two-thirds of the members of the Board of Directors. Shares of Class B are convertible at the option of any holder thereof into shares of Class A at the rate of one share of Class B for one share of Class A. Shares issued and outstanding at February 2, 1985 and January 28, 1984 include 62,240 shares of Class A which were purchased in 1979 and are being held as treasury stock.

On March 14, 1983, the Company's Common Stock was split two-for-one, with the authorized shares of Class A increased to 10,000,000 (\$5.00 par value) and Class B increased to 800,000 (\$5.00 par value). On November 18, 1983, the stockholders further increased the authorized shares of Class A to 20,000,000 and changed both the Class A and Class B Common Stock to no par. On August 30, 1984, the Company's Class A and Class B Common Stock was again split two-for-one. All share and per share references have been adjusted retroactively to reflect these splits.

Note H: Stock Options

Under the terms of a 1973 stock option plan, 240,000 shares of Class A Common Stock were made available for granting options (prior to March 10, 1983) to certain officers and employees of the Company. The option price is the market value of the shares at the time options are granted. The options become exercisable in four equal installments on the anniversary of the grant date, beginning with the second anniversary. Options not exercised on these dates are terminated and no options were exercisable at any year end. No options were available for grant at the end of the fiscal 1984 and 1983. Option transactions for fiscal 1984 and 1983 are summarized as follows:

	Shares Under Options		Aggregate Option Price	
	1984	1983	1984	1983
Outstanding at beginning of year	84,000	147,300	\$ 474,281	\$ 770,869
Exercised	(30,000)	(63,300)	(165,468)	(296,588)
Outstanding at end of year	<u>54,000</u>	<u>84,000</u>	<u>\$ 308,813</u>	<u>\$ 474,281</u>

In May 1984, the Company's 1984 Incentive Stock Option Plan was approved by the stockholders. This plan provides for the granting of options to purchase an additional 300,000 shares on terms similar to the 1973 plan. None of these options had been granted at February 2, 1985.

Note I: Capital Leases

Future minimum payments, by year and in the aggregate, under capital leases as of February 2, 1985 are as follows (thousands):

Fiscal Period	
1985	\$ 2,246
1986	2,231
1987	2,226
1988	2,100
1989	1,786
After 1989	<u>20,073</u>
Total minimum lease payments	30,662
Less: Amount representing interest	<u>(14,251)</u>
Present value of net minimum lease payments	<u>\$16,411</u>

Note J:
Operating Leases
and Commitments

Rental expense consists of the following:

<i>(In thousands of dollars)</i>	<i>Year Ended</i>		
	February 2 1985	January 28 1984	January 29 1983
Operating leases:			
Buildings:			
Minimum rentals	\$15,496	\$12,124	\$11,071
Contingent rentals	3,775	2,442	1,462
Equipment	4,549	4,492	4,214
Sublease revenues	(158)	(199)	(209)
	23,662	18,859	16,538
Contingent rentals on capital leases	1,633	1,467	1,216
	<u>\$25,295</u>	<u>\$20,326</u>	<u>\$17,754</u>

Contingent rentals on capital leases are based on a percentage of annual sales in excess of specified amounts. Other contingent rentals are based entirely on a percentage of sales.

The future minimum rental commitments as of February 2, 1985 for all noncancelable operating leases for buildings are as follows (thousands):

<i>Fiscal Period</i>	
1985	\$ 16,845
1986	16,613
1987	16,307
1988	16,094
1989	15,892
After 1989	222,363
	<u>\$304,114</u>

Renewal options from three to twenty-five years exist on the majority of leased properties.

The Company is committed at February 2, 1985, to incur costs of approximately \$28,500,000 to complete and equip certain stores.

Notes To Consolidated Financial Statements

(continued)

Note K: Other Information (Unaudited)

Quarterly Results of Operations: The following is a tabulation of the unaudited quarterly results of operations for the years ended February 2, 1985 and January 28, 1984 (thousands, except per share data):

	1984			
	<i>Three Months Ended</i>			
	April 28	July 28	October 27	February 2
Net sales	\$227,851	\$256,038	\$302,697	\$490,694
Gross profit	85,045	95,164	112,031	173,518
Net income	6,121	7,861	9,275	26,301
Per common share .....	.46	.59	.69	1.80

	1983			
	<i>Three Months Ended</i>			
	April 30	July 30	October 29	January 28
Net sales	\$159,632	\$185,716	\$209,175	\$292,962
Gross profit	60,221	68,038	77,664	109,504
Net income	4,137	5,150	6,483	18,369
Per common share .....	.35	.42	.52	1.46

The Company's LIFO adjustment for 1984 and 1983 was less than previously estimated in preparing the quarterly financial statements for the first three quarters of each year. As a result, fourth quarter net income was approximately \$1,800,000 (\$.12 per share) and \$700,000 (\$.06 per share) higher for 1984 and 1983, respectively, than it would have been had the actual LIFO adjustment been known at the beginning of the year. This impact would have been shared approximately equally by each of the three previous quarters.

Effects of Changing Prices: In accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," the Company must provide supplemental information concerning the estimated effects of changing prices on its financial statements. The disclosures are intended to address the specific price changes in the individual resources used by the Company ("current" cost).

The supplemental information on changing prices does not reflect a comprehensive application of inflation accounting as the FASB has decided to focus only on those items most affected by changing prices, that is: (1) the effect of specific price changes on inventories and properties and related cost of sales and depreciation, and (2) the effect of general inflation on monetary assets and liabilities.

Note K:
Other Information
(Unaudited)
(continued)

The effects of changes in specific prices have been estimated based on the current cost of inventories and properties as of the balance sheet date. Cost of sales under the LIFO inventory method of the Company approximates the current cost of inventories at the date of sale and remains unchanged from the amount shown in the primary financial statements. As required by FASB Statement No. 33, the provision for income taxes included in the supplementary data is the same as reported in the primary financial statements since present tax laws do not allow deductions for higher depreciation adjustments for the effects of inflation.

When prices are increasing, the holding of monetary assets (e.g., cash and receivables) results in a loss of general purchasing power. Similarly, liabilities are associated with a gain of general purchasing power because the amount of money required to settle the liabilities represents dollars of diminished purchasing power. The net gain in purchasing power is shown separately in the accompanying supplementary data. The amount has been calculated based on the Company's average net monetary liabilities for the year multiplied by the change in CPI-U for the year. Such amount does not represent funds available for distribution to shareholders.

The following table presents supplementary data for fiscal 1984:

<i>(In thousands of dollars)</i>	<i>As Reported in Financial Statements</i>	<i>Adjusted for Changes in Specific Prices (Current Costs)</i>
Net sales and other income	\$1,318,204	\$1,318,204
Cost of sales	811,522	811,522
Depreciation and amortization	30,435	39,150
All other expenses	388,639	388,639
Income before income taxes	87,608	78,893
Federal and state income taxes	38,050	38,050
NET INCOME	<u>\$ 49,558</u>	<u>\$ 40,843</u>
Increase in specific prices (current costs) of inventories and properties held during the year'		\$ 26,164
Less effect of increase in general price level		18,312
Increase in current costs over increase in general price level		<u>\$ 7,852</u>

'At February 2, 1985, current cost of inventories was \$261,786 (historical amount — \$252,239) and current cost of properties, net of accumulated depreciation, was \$422,551 (historical amount — \$337,531).

Notes To Consolidated Financial Statements

(continued)

Note K: Other Information (Unaudited)

(continued)

Comparison of Selected Financial Data Adjusted for Effects of General Inflation

In Average 1984 Dollars (except "as reported" amounts)

<i>(In thousands of dollars except per share data)</i>	1984	1983	1982	1981	1980
Net sales and other income:					
As reported	\$1,318,204	\$876,708	\$734,187	\$610,448	\$487,552
Adjusted for general inflation	1,318,204	913,604	789,884	694,602	610,663
Net income:					
As reported	49,558	34,139	21,956	16,259	8,506
Adjusted for specific price changes	40,843	28,709	18,878	14,934	7,569
Per share data:					
As reported	3.63	2.76	1.86	1.38	.72
Adjusted for specific changes in prices	2.99	2.32	1.60	1.27	.64
Cash dividends paid on common shares:					
As reported .....	.18	.15	.10	.10	.10
Adjusted for general inflation .....	.18	.16	.11	.11	.13
Increase in current costs of inventories and properties over (under) the general price level	7,852	1,276	(6,246)	1,641	9,393
Purchasing power gain from holding net monetary liabilities during the year	8,407	7,850	7,023	14,697	19,108
Net assets at year-end:					
As reported	298,353	185,553	137,291	116,403	101,340
Adjusted for specific price changes	392,919	275,569	224,060	210,178	179,912
Market price per common share at year-end:					
As reported	45.00	26.25	11.94	5.72	3.40
Adjusted for general inflation	44.42	26.83	12.71	6.32	4.08
Average consumer price index for all urban consumers	312.0	299.4	290.0	274.2	249.1



1984 Annual Report
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